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SUBJECT: ROMANIA: BOEING SETS UP FOR A 1 BILLION DOLLAR DEAL

REF: BUCHAREST 362

Classified By: DCM Jeri Guthrie-Corn for reasons 1.4 (b) and (d).

¶1. (C/NF) Summary. The Regional Boeing sales representative advised the Ambassador of plans for a multi-plane deal to sell new Boeing 737s to TAROM, the Romanian state owned airline. From Boeing's perspective the 737s fit naturally into TAROM's existing fleet structure and will support TAROM's future expansion plans. Operationally and strategically, Boeing believes that 737s are a better fit for TAROM than the competition. The deal could result in selling up to ten aircraft plus additional options to TAROM and Boeing is valuing the potential deal at close to USD 1 Billion. However, Boeing is worried about reports that EADS does not plan to compete fairly and that they may attempt to improperly influence key government officials to favor Airbus.

¶2. (S/NF) In a meeting on July 25th with the Ambassador, the regional Boeing representative, Monte Frazier, shared an allegation that EADS may have offered 3 percent of the sales price of any eventual Airbus purchase as bribes to officials in the Romanian Government. Frazier has been a frequent visitor to Bucharest over the last several months, and recently helped Romanian low-cost carrier Blue Air complete

the purchase of several next generation 737 aircraft. He has built good contacts with the senior management of TAROM and believes that these managers are favorably inclined toward purchasing 737s from Boeing. However, these same TAROM managers preferred to wait until they were able to meet privately with senior Boeing executives outside of Romania at the Farnborough Air Show to report allegations that officials in the Ministry of Transportation and the Prime Minister's office have been offered bribes to force TAROM to buy new aircraft from EADS.

¶3. (SBU) The business rationale for TAROM to choose Boeing is considerable. reftel reported on TAROM's hodgepodge fleet mix, which includes B-737s, A-310s, A-318s, plus smaller regional turboprops. TAROM has subsequently signed a lease deal for four new 737 aircraft to fill immediate fleet needs. This will make 737s the predominant aircraft type in the fleet when the new leased planes enter service. According to Boeing, the range, size, and fuel efficiency of 737s make them the best possible aircraft for a regional carrier like TAROM. As an added benefit, the parts and flight crew certifications are standardized across the 737 line, making an exclusively 737 fleet cheaper and more flexible from an operations standpoint. TAROM is already able to offer a full suite of 737 repair services at their certified maintenance facility, which provides additional cost justifications for sticking with the 737 airframe.

¶4. (C/NF) Comment. Post has offered our support to Boeing and agreed to advocate for Boeing with the GOR, when it becomes appropriate, to ensure that Boeing's eventual bid is given all due consideration. Setting aside allegations of bribery, the political pressure on Romania to pick a European airframe is considerable. The fact that 4 leased Boeing planes have been added into the fleet, may actually lend weight to the argument that it is now Airbus's turn to garner a sale, despite the fact that a mixed fleet raises costs and creates operational difficulties for TAROM. Boeing seems prepared to make the argument that 737s make the most

business sense for TAROM, and they are planning on an all-out effort to ensure their eventual success in concluding a sale.

Post plans to assist Boeing to ensure that the eventual competition is fair and transparent. The fact that TAROM is wholly state-owned unfortunately injects politics into what should be a straightforward business decision. End Comment.

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